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DOMAN INDUSTRIES LIMITED

**ANNUAL
REPORT
1968**

**DIRECTORS
AND
OFFICERS**

DOMAN INDUSTRIES LIMITED
(Incorporated under the Laws of British Columbia)

DIRECTORS

H. S. Doman, *President, Doman Industries, Duncan, B.C.*
Dennis C. Roberts, *Chartered Accountant, Victoria, B.C.*
Ian C. Danvers, *Director, Pemberton Securities, Vancouver, B.C.*
John C. Davie, *Barrister & Solicitor, Williams & Davie, Duncan, B.C.*
D. S. Doman, *Executive, Doman Industries, Victoria, B.C.*
Gordon B. Elworthy, *Vice-President, Island Tug & Barge, Victoria, B.C.*
J. R. Abercrombie, *C.A., Treasurer, Doman Industries, Duncan, B.C.*

OFFICERS

H. S. Doman, *President*
John C. Davie, *Secretary*
J. R. Abercrombie, *Treasurer*

**REGISTRAR &
TRANSFER AGENT**

Royal Trust Company, *Vancouver, B.C.*

BANKERS


The Royal Bank of Canada

SOLICITORS

Williams & Davie, *Duncan, B.C.*

AUDITORS

Thorne, Gunn, Helliwell & Christenson, *Vancouver, B.C.*



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PRESIDENT'S REPORT TO THE SHAREHOLDERS

I am pleased to present our Fourth Annual Report which reflects a year of continued progress and increased profits. During the year ended October 31, 1968, we have benefited from expansion made in past years, and we have taken further significant steps which will assist the Company in the future. In this report I will expand these comments, and provide some background on each division of our group.

Merchandising Building Supplies

Doman Industries Limited operates six outlets in British Columbia, which include retail lumber and building supply yards in Victoria, Duncan and Nanaimo; wholesale lumber and building supply yards in Victoria and Surrey; and a large materials assembly yard at Chemainus. The Surrey operation which was opened in November, 1968, is situated near the new Guildford Shopping Centre, and is strategically located in one of the fastest growing areas of B.C. Most of the land and all of the buildings of these six divisions are owned by the Company. Sales volume of these divisions totalled \$5,458,000 in 1968 compared with \$4,532,000 in 1967, and continued growth is anticipated.

Sand, Gravel and Ready Mix Concrete

Complementing the lumber and building supply outlets is a wholly owned Duncan based subsidiary, Armour & Saunders Ltd. This company is a sand, gravel and ready mix concrete supplier which has its own aggregate deposits, washing plant and concrete batch plant, together with modern ready mix delivery trucks, sand and gravel trucks, and related equipment. Gravel deposits and plant are located on land owned by the Company.

Transportation

The transportation business of the Company includes hauling licenses throughout the Province of B.C. and is conducted by three wholly owned subsidiary companies, Doman's Transport Ltd., Doman-Marpole Transport Ltd., and Doman's Freightways Ltd. with operating bases in Vancouver and on Vancouver Island. These companies operate a fleet of 42 diesel tractors, 13 gasoline tractors and 89 trailers together with specialized hauling equipment. This equipment is in new or near new condition, and is

maintained at a large well-equipped Company shop and service depot in Duncan. These facilities are also available for maintenance of 75 pieces of specialized mobile equipment owned by the other divisions. Sales volumes in 1968 \$2,068,000 up over 1967 \$1,837,000 with steady growth being experienced.

Lumber Manufacturing

For a number of years the Company has operated small sawmills on Vancouver Island in order to produce lumber for its building supply outlets. This sawmill development culminated in the completion in 1967 of a large sawmill at Ladysmith, B.C. Ladysmith Forest Products Ltd. which owns this new plant is held 75% by Doman Industries Limited with the other major shareholder being Pacific Logging Co. Ltd. The plant utilizes logs which until recently were considered too small for efficient conversion to lumber. Ladysmith Forest Products Ltd. has pioneered a highly successful process which overcomes the problems previously encountered in handling small logs and converting them to lumber. In February 1968, the plant was put on a two shift basis and from that date Ladysmith Forest Products Ltd. has made significant contributions to earnings. In 1969 the plant was put on a three shift basis, and is operating around the clock on each week day. The sawmill will produce over 70 million board feet of lumber per annum most of which will be sold on the export market. Sales volumes 1968 \$3,943,000; 1967 \$151,000. Sales will be significantly increased in 1969.

In 1969, Nanoose Forest Products Ltd., a wholly owned subsidiary of Doman Industries Ltd. has completed construction of a sawmill designed to cut timbers and specialty items to supply the company's local and export customers. This is the first stage of a complex at Chemainus, B.C., which will include the Sawmill, a Timber Sizer or Planer and a Moulding Machine or Sticker. This project will be completed in 1969, and is expected to greatly strengthen the competitive position of the Company's lumber and building supply outlets.

Logging

In conjunction with the Company's expansion which has resulted in it becoming a major producer of lumber, Doman's has developed logging operations in coastal B.C. and on Vancou-

ver Island. The Company has been actively pursuing the acquisition of timber and timber cutting rights and several interesting situations are currently under consideration. In January 1969, the Company purchased a substantial Timber Sale Harvesting License at Jervis Inlet, fifty miles north of Vancouver. This operation, acquired as a going concern, includes logging equipment, camp and roadway development presently capable of producing over twenty million board feet per annum. Logging operations will commence in February, 1969, and it is expected that some 10 million board feet of logs will be produced in the current fiscal year. This operation will be carried out by O.B. Logging Co. Ltd., a wholly owned subsidiary.

Employees

Much of the rapid growth experienced by our group has been made possible by the dedicated efforts of our employees who presently number 275 on a permanent full time basis. Additional people are employed on a part time basis, and by contractors working for the Company. The average age of those on our permanent staff is currently 35 years.

Shareholders

The Company has 505 common shareholders and 699 preferred shareholders. While B.C. residents are in the majority, the share registers include residents of all ten Canadian Provinces, the United States and the United Kingdom.

General

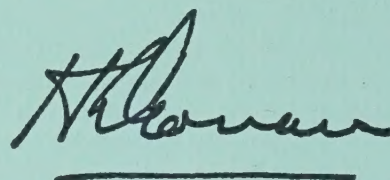
The operations of the group are closely integrated and emphasis continues to be directed to strengthening the Company's long term competitive position. Each division is regulated on a daily operating control basis under an overall Company policy which emphasizes productivity.

Outlook

The Company is now established in the forest industry and in the service areas outlined above. Many advantages accrue from this vertical integration, and it is our intention to continue a policy of expanding whenever profitable opportunities arise.

The outlook for 1969 is excellent with increased profits anticipated and further progress indicated.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'H. S. Doman', written in a cursive style. Below the signature is a horizontal line.

H. S. Doman, President.

Duncan, B.C.

February 21, 1969.

FINANCIAL HIGHLIGHTS

	1968	1967
Sales	\$10,486,069	\$8,362,126
Earnings Before Income Taxes	735,057	314,729
Less Income Taxes	403,961	156,400
Net Earnings	331,096	158,329
Less Preferred Dividends	63,050	56,550
Net Earnings Available for Common Shares	268,046	101,779
Earnings Per Common Share75	.29
Current Assets	\$ 3,588,436	\$2,802,367
Current Liabilities	2,517,869	2,455,576
Working Capital	1,070,567	346,791
Fixed Assets — Net	2,861,629	2,728,026
Other Assets	494,480	461,208
Long-Term Indebtedness	1,490,974	1,123,212
Deferred Income Taxes	444,761	244,700
Preferred Shares	970,000	970,000
Common Shareholders' Equity	1,469,254	1,201,208
Interest of Minority Shareholders	51,687	(3,095)

FOUR YEAR COMPARISON OF OPERATING RESULTS

	1968	1967	1966	1965
Sales	\$10,486,069	\$8,362,126	\$7,011,818	\$5,981,820
Cash Flow from operations	1,001,781	428,981	530,797	503,446
Net earnings (excluding profit on sale of fixed assets)	331,096	158,042	183,979	149,915
Profit on sale of fixed assets	—	287	6,166	86,756
Preferred dividends	63,050	56,550	37,050	27,788

FOUR YEAR COMPARISON OF FINANCIAL POSITION

	1968	1967	1966	1965
Fixed Assets (Net)	\$ 2,861,629	\$2,728,026	\$1,986,637	\$1,582,983
Long term debt (net after current portion)	1,490,974	1,123,212	544,446	636,333
Working Capital	1,070,567	346,791	238,505	561,303
Shareholders' Equity	2,439,254	2,171,208	1,709,318	1,625,018
Deferred Income Taxes (Fully provided for in the accounts)	444,761	244,700	235,700	182,700

DOMAN INDUSTRIES LIMITED

(Incorporated under the laws of the Province of British Columbia)

Consolidated Balance Sheet at October 31, 1968

(with comparative figures at October 31, 1967)

ASSETS

<i>Current Assets</i>	1968	1967
Cash on hand and in bank	\$ 15,904	\$ 31,097
Marketable securities, at cost	—	29,985
Accounts receivable	1,746,435	1,258,501
Inventories (Note 6)	1,752,673	1,333,529
Prepaid expenses	68,718	81,067
Advances to associated companies	4,706	39,615
Principal portion of mortgage receivable within one year	—	28,573
	<u>3,588,436</u>	<u>2,802,367</u>
 <i>Investments and Receivables Other Than Current</i>		
Special refundable tax	14,007	12,796
Other	41,766	56,312
	<u>55,773</u>	<u>69,108</u>
 <i>Fixed Assets, at cost (Note 3)</i>		
Buildings, machinery and equipment	3,541,459	3,153,741
Less accumulated depreciation	982,912	712,763
	<u>2,558,547</u>	<u>2,440,978</u>
Land	209,877	139,445
Timber holdings and logging roads, less amounts written off \$266,575 (1967 - \$178,583)	93,205	147,603
	<u>2,861,629</u>	<u>2,728,026</u>
 <i>Intangibles and Deferred Charges (Note 4)</i>		
Deferred preproduction expenses, less amortization	173,645	203,754
Other deferred charges, less amortization	76,716	—
Excess of cost over book values on acquisition of shares in subsidiaries	188,346	188,346
	<u>438,707</u>	<u>392,100</u>
 Approved on behalf of the Board		
H. S. DOMAN, Director		
J. C. DAVIE, Director		
	<u>\$6,944,545</u>	<u>\$5,991,601</u>

LIABILITIES

<i>Current Liabilities</i>	1968	1967
Bank advances, secured	\$1,166,111	\$ 979,657
Accounts payable and accrued liabilities	951,561	1,102,511
Income taxes payable	124,326	148,795
Due to directors, officers and shareholders	9,042	4,483
Principal instalments due within one year on long-term debt	266,829	220,130
	<u>2,517,869</u>	<u>2,455,576</u>
 <i>Long-Term Debt (Note 7)</i>	 1,757,803	 1,343,342
Less principal instalments included in current liabilities	266,829	220,130
	<u>1,490,974</u>	<u>1,123,212</u>
 <i>Deferred Income Taxes (Note 5)</i>	 444,761	 244,700
 <i>Interest of Minority Shareholders in Subsidiary Company</i>	 51,687	 (3,095)

SHAREHOLDERS' EQUITY

<i>Capital Stock (Note 8)</i>		
Authorized		
117,000 6½ % cumulative redeemable convertible preferred shares, par value \$10		
1,000,000 common shares without par value		
Issued		
97,000 preferred shares	970,000	970,000
357,000 common shares	286,250	286,250
	<u>1,256,250</u>	<u>1,256,250</u>
 <i>Retained Earnings</i>	 1,183,004	 914,958
	<u>2,439,254</u>	<u>2,171,208</u>
	 <u>\$6,944,545</u>	 <u>\$5,991,601</u>

Consolidated Statement of Earnings and Retained Earnings

Year Ended October 31, 1968 (with comparative figures for 1967)

	1968	1967
<i>Sales of products, merchandise and services</i>	<u>\$10,486,069</u>	<u>\$8,362,126</u>
 Deduct		
Cost of sales, selling and administration expense (Note 2)	9,149,114	7,707,681
Depreciation (Note 3)	285,243	195,261
Depletion of timber and amortization of roads (Note 3)	89,932	69,511
Amortization of deferred preproduction expenses (Note 4)	34,729	—
Interest on long-term debt (1967 - excluding \$26,020 charged to deferred preproduction expenses)	137,212	78,351
	<u>9,696,230</u>	<u>8,050,804</u>
	789,839	311,322
Profit on sale of fixed assets	—	287
Earnings before income taxes and minority interest	<u>789,839</u>	<u>311,609</u>
 <i>Provision for income taxes</i> (Note 5)		
Currently payable	203,900	147,400
Deferred	200,061	9,000
	<u>403,961</u>	<u>156,400</u>
Earnings before minority interest	385,878	155,209
Interest of minority shareholders in earnings (loss) of subsidiary	54,782	(3,120)
Net earnings for year	<u>331,096</u>	<u>158,329</u>
Retained earnings at beginning of year	914,958	853,068
	<u>1,246,054</u>	<u>1,011,397</u>
Financing costs written off	—	39,889
Dividends on preferred shares	63,050	56,550
	<u>63,050</u>	<u>96,439</u>
Retained earnings at end of year, carried to balance sheet..	<u>\$ 1,183,004</u>	<u>\$ 914,958</u>

Consolidated Statement of Source and Application of Funds

Year Ended October 31, 1968 (with comparative figures for 1967)

<i>Source of funds</i>	1968	1967
Operations		
Net earnings for the year	\$ 331,096	\$ 158,329
Charges against earnings not representing a current outlay of funds		
Depreciation and depletion	375,175	264,772
Deferred income taxes	200,061	9,000
Amortization of deferred charges	40,667	—
Interest of minority shareholders	54,782	(3,120)
Total funds from operations	<u>1,001,781</u>	<u>428,981</u>
Issue of securities		
Preferred shares	—	400,000
First Mortgage Bonds	300,000	700,000
Debentures	111,100	250,000
Other long-term borrowing	257,322	—
	<u>668,422</u>	<u>1,350,000</u>
Less commissions and expenses	—	39,889
	<u>668,422</u>	<u>1,310,111</u>
Sale of fixed assets	862	9,618
Reduction in investments and receivables other than current	13,335	3,885
	<u>1,684,400</u>	<u>1,752,595</u>
Application of funds		
Additions to fixed assets	509,640	1,015,779
Deferred charges	87,274	200,746
First Mortgage Bonds—amounts repaid and currently maturing	52,500	87,500
Net reduction in long-term debt other than bonds and debentures	248,160	283,734
Dividends paid on preferred shares	63,050	56,550
	<u>960,624</u>	<u>1,644,309</u>
Increase in working capital	723,776	108,286
Working capital at beginning of year	346,791	238,505
Working capital at end of year	<u>\$1,070,567</u>	<u>\$ 346,791</u>

Notes to Consolidated Financial Statements

Year Ended October 31, 1968

1. **BASIS OF CONSOLIDATION**—The consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly-owned except Ladysmith Forest Products Limited, in which ownership was increased from 70% to 75% during the year.
2. **DIRECTORS' REMUNERATION**—Fees to directors and full remuneration of officers and employees who are also directors totalled \$85,975 for the year (1967 - \$72,955).
3. **FIXED ASSETS AND DEPRECIATION**—Depreciation is recorded on a straight-line basis at rates based on the estimated useful lives of fixed assets. These estimated useful lives range between five to ten years for automotive equipment, ten to fifteen years for other equipment and twenty years for buildings. Costs of timber holdings and logging roads are written off as timber in the area is removed.
4. **DEFERRED CHARGES**—Deferred preproduction expenses, which represent the net cost of operating the Ladysmith sawmill through the period of completing construction and running in, are being amortized by regular charges to income over five years starting January, 1968. Other deferred charges consist largely of deferred finance fees, amortized over the life of the debt.
5. **INCOME TAXES**—The companies have followed the practice of charging earnings with both the income taxes currently payable and the amounts deferred through claiming capital cost allowances in excess of the depreciation recorded at appropriate straight-line rates in the accounts. The accumulated amount of these deferments is recorded in the balance sheet as "Deferred Income Taxes".

6. INVENTORIES	1968	1967
Logs	\$ 664,945	\$ 330,511
Lumber	625,630	641,647
Merchandise	387,907	296,505
Supplies	74,191	64,866
	<u>\$1,752,673</u>	<u>\$1,333,529</u>

Logs and supplies are valued at the lower of cost and replacement cost; lumber and merchandise are valued at the lower of cost and net realizable value.

7. LONG-TERM DEBT	Amount October 31, 1968	Principal instalments due within one year
9¼ % First Mortgage Bonds, Series "A", payable in 40 quarterly instalments commencing October 15, 1967	\$ 612,500	\$ 70,000
9½ % First Mortgage Bonds, Series "B", payable in 40 quarterly instalments commencing April 15, 1968	277,500	30,000
7% Debentures of Ladysmith Forest Products Limited, held by its shareholders, payable from 1970 to 1974	361,100	—
Equipment contracts at various rates of interest, payable monthly	362,030	150,699
6% loans from shareholders	67,483	—
Other agreements payable	77,190	16,130
	<u>\$1,757,803</u>	<u>\$266,829</u>

The Trust Deed securing the issue of the company's First Mortgage Bonds contains normal provisions restricting the redemption of share capital, limiting amounts of fixed asset and long-term lease expenditures, and requiring the maintenance of specified levels of working capital. The Company has the right to call the Series "A" Bonds for redemption in whole or in part after March 1, 1970, and the Series "B" Bonds after January 26, 1973.

8. CAPITAL STOCK—Preferred shares are redeemable at \$10.65 per share unless converted within the thirty day period of notice.

At October 31, 1968, 181,333 unissued common shares were reserved as follows:

- (a) 129,333 for conversion of 97,000 Series "A" preferred shares on basis of $1\frac{1}{2}$ common shares per preferred share, such rights being exercisable at any time.
- (b) 40,000 against exercise of 40,000 common share purchase warrants, issued in 1967 and exercisable until December 31, 1976, entitling the bearer to purchase one common share at \$7.00.
- (c) 8,000 against exercise of stock options granted to directors (7,000 exercisable at \$5.00 on or before January 1, 1972) and employees (1,000 exercisable at \$5.00 on or before June 10, 1973).
- (d) 4,000 against further issuance of stock options to key employees.

9. SUBSEQUENT EVENTS—After October 31, 1968 the company acquired, through a share purchase, a Timber Sale Harvesting Licence and related logging assets. The budgeted outlay on this acquisition is approximately \$850,000.

Auditors' Report to the Shareholders of Doman Industries Limited

We have examined the consolidated balance sheet of Doman Industries Limited and its subsidiary companies at October 31, 1968 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at October 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 14, 1968
Vancouver, B.C.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

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DOMAN INDUSTRIES LIMITED

**SEMI
ANNUAL
REPORT
1968**

PRESIDENT'S REPORT TO THE SHAREHOLDERS

I am pleased to submit to you the results of your Company's operations for the first and second quarters of the current fiscal year.

The highlights of the operating results are as follows:

	First Quarter Ended January 31, 1968	Second Quarter Ended April 30, 1968	Total for the Six Months Ended April 30, 1968
	\$ 000 (thousands of dollars)	\$ 000 (thousands of dollars)	\$ 000 (thousands of dollars)
Sales	1,917	2,373	4,290
Earnings before Income Taxes	27	102	129
Less Income Taxes	4	48	52
Net Earnings	23	54	77
Less Preferred Dividends	16	16	32
Net Earnings Available for Common Shares	7	38	45
Earnings per Common Share	\$.02	\$.11	\$.13

It will be noted that seasonal factors affect the first quarter, and that business begins to pick up with the advent of fair weather. If operations continue uninterrupted in the third and fourth quarters your management foresees a continued improvement in operating results. Our new sawmill at Ladysmith, B.C. is showing a good profit in the second quarter, and in the months of April and May, 1968, has exceeded its forecasted performance. This part of our business is expected to show particularly good results if the plant is able to operate without loss of time due to labour unrest during negotiations presently before the Coast Lumber Industry.

Comparative figures for 1967 have not been included in this report because the operations for the two periods are not clearly comparable. Rather a comparison of the first and second quarters of the current year is considered more meaningful.

DOMAN INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE SIX MONTHS ENDED APRIL 30, 1968

SOURCE OF FUNDS

Operations - net earnings before minority interest	\$ 84,449
Non-Cash charges - Depreciation	145,271
- Depletion and road amortization	26,613
- Amortization of pre- production costs	13,584
- Deferred income taxes	19,306
Issue of Securities	
RoyNat Ltd. Series B Debenture	300,000
Pacific Logging Co. Ltd. Debenture	55,550
T. W. MacKenzie Logging Co. Ltd. Debenture	55,550
Sundry	6,325
Total	<u>\$706,648</u>

APPLICATION OF FUNDS

Fixed Assets	\$ 71,131
Term Debt	133,992
Preferred Dividends	31,526
Total	<u>\$236,649</u>
Increase in Working Capital	\$469,999
Working Capital October 31, 1967	\$346,791
WORKING CAPITAL APRIL 30, 1968	<u><u>\$816,790</u></u>

Turning to the financial position at April 30, 1968, the main items are delineated below, (with comparative figures at October 31, 1967):

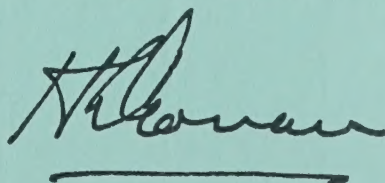
	April 30, 1968	October 31, 1967
	\$ 000 (thousands of dollars)	\$ 000 (thousands of dollars)
Current Assets	3,084	2,802
Current Liabilities	2,267	2,455
Working Capital	817	347
Fixed Assets - Net	2,627	2,728
Other Assets	436	464
Long-Term Indebtedness	1,400	1,123
Deferred Income Taxes	264	245
Preferred Shares	970	970
Common Shareholders' Equity	1,246	1,201
Book Value per Common Share	<u>\$3.49</u>	<u>\$3.36</u>

Our working capital position is sound having increased by \$470,000 in the six months to a total of \$817,000 at April 30, 1968. No further outside capital is required to sustain profitable operation of the existing facilities.

I am pleased to report that in line with my comments which accompanied our 1967 Annual Report the Company has taken significant steps to strengthen its management, which is being organized on a functional basis.

Productivity continues to be our main objective, and we are directing every effort to becoming more efficient and competitive in order to continually improve the operating results and the underlying financial strength of your Company.

Respectfully submitted,



June 10, 1968.
Duncan, B.C.

President.

DOMAN INDUSTRIES LIMITED AND
SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTHS ENDED APRIL 30, 1968

Sales - Products, merchandise and services	\$4,289,769
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Deduct:

Production, selling and administration expense	3,865,907
Depreciation	145,271
Depletion of timber and amortization of roads	26,613
Amortization of preproduction expense ..	13,584
Interest on long term debt	64,000
Bank interest and charges	37,729
	<u>\$4,153,104</u>

Earnings before income taxes and minority interest	<u>136,665</u>
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Deduct - provision for income taxes

Currently payable	32,910
Deferred	19,306
	<u>52,216</u>

Earnings before minority interest	84,449
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Deduct - interest of minority

shareholders in profits of Ladysmith Forest Products Ltd.	7,809
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NET EARNINGS FOR THE PERIOD:	<u>\$ 76,640</u>
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